

M

WESTERN DEPARTMENT STORES

CLEVELAND PUBLIC LIBRARY
BUSINESS INFORMATION BUREAU
CORPORATION FILE

REPORT to STOCKHOLDERS

January 31, 1945

Stores operated:

OLDS, WORTMAN & KING

Portland
Est. 1851

KAHN'S

Oakland
Est. 1879

RHODES BROTHERS

Tacoma
Est. 1892

RECEIVED
JAN 31 1945

WESTERN DEPARTMENT STORES

A California Corporation

Incorporated in 1937

BOARD OF DIRECTORS

J. R. BEARWALD

F. R. MCGREW

HERBERT E. CLAYBURGH

JOHN J. REILLY

JOHN J. GOLDBERG

F. A. WICKETT

F. J. YOUNG

OFFICERS

<i>President</i>	JOHN J. REILLY
<i>Vice-President</i>	HERBERT E. CLAYBURGH
<i>Secretary and Treasurer</i>	F. R. MCGREW
<i>Assistant Secretary</i>	JOHN J. GOLDBERG
<i>Assistant Secretary</i>	E. F. SHINN
<i>Assistant Secretary</i>	R. L. CHILDS
<i>Assistant Secretary</i>	A. K. HUMBLE
<i>Assistant Treasurer</i>	H. W. RHEUBOTTOM

LEGAL COUNSEL

JESSE H. STEINHART

PUBLIC ACCOUNTANTS

PRICE, WATERHOUSE & CO.

TRANSFER AGENT

THE ANGLO CALIFORNIA NATIONAL BANK
OF SAN FRANCISCO
No. 1 Sansome Street
San Francisco 20, California

REGISTRAR

WELLS FARGO BANK & UNION
TRUST CO.
Montgomery and Market Streets
San Francisco, California

Annual Stockholders Meeting Oakland, California, April 24, 1945, 10:00 o'clock A.M.
Executive Offices 1501 Broadway, Oakland, California (Kahn's Department Store)

Oakland, California

April 5, 1945

To the Stockholders of

WESTERN DEPARTMENT STORES:

Consolidated financial statements for the fiscal year ended January 31, 1945, examined and reported upon by Price, Waterhouse & Co., are submitted herewith.

These statements consist of a consolidated balance sheet and earnings statement of Western Department Stores (operating three department stores: Kahn's, Oakland; Olds, Wortman & King, Portland; and Rhodes Brothers, Tacoma) and Morrison & Tenth Company (the company which holds the lease upon the property occupied by the Portland store).

EARNINGS AND FINANCIAL POSITION

The operating results for the past five years are presented herewith:

Year ending January 31	Sales	Profit before Federal Taxes	Federal Taxes	Net Profit
1945	\$22,765,350	\$3,296,685	\$2,425,000	\$871,685
1944	20,343,490	2,778,556	2,042,000	736,556
1943	15,416,248	1,665,942	1,181,000	484,942
1942	11,388,126	841,774	419,201	422,573
1941	9,473,840	403,881	135,116	268,765

The company is in a strong financial position, with a net working capital of \$2,888,930. Cash on hand amounts to \$1,494,680 which may seem larger than presently required. It is our purpose, however, to build up our cash position in order to take care of postwar requirements, which will necessitate among other needs, increased investment in customer accounts, possible increase in inventories and provision for funds required for scheduled improvements.

Accounts due from customers at January 31, 1945 show an increase of \$173,180 and merchandise on hand has increased \$189,903; both increases are in line with the increase in the volume of business.

During the year the balance of indebtedness to banks was paid. The largest liability now on our balance sheet is the estimated amount payable to the Federal Government for taxes on income in the amount of \$2,475,000; tax notes in the amount of \$2,300,000 have been purchased in anticipation of these payments.

CAPITALIZATION

You were informed in our last report, that the plan of recapitalization, as approved by stockholders on December 21, 1943, had become effective by the exchange of more than two-thirds of the outstanding Special Preferred Stock. The exchange privilege was exercised by stockholders holding 55,810 shares out of a total of 58,042 shares then outstanding.

On September 2, 1944 the company gave notice to the holders of the remaining shares of Special Preferred Stock then outstanding that it would redeem all of said shares on November 1, 1944 at the redemption price of \$26.50 per share, plus all accrued and accumulated dividends to that date, and all of such shares have now been redeemed. There are presently outstanding 67,133 shares of 6% Cumulative Convertible Preferred Stock, having a par value of \$25.00 per share and 95,947 shares of Common Stock having a par value of \$1.00 per share.

In August, 1944 the Directors authorized an issue of Five-Year Convertible Promissory Notes in an aggregate principal sum not exceeding \$300,000, which notes are convertible at any time on or before maturity, into Common Stock of the company, at the rate of five (5) shares Common Stock for each \$100.00 of principal sum of the note converted.

The notes were to be sold for cash or on subscription agreement to executive employees designated by the management and approved by the Board of Directors. These executive employees (some twenty in number) have subscribed to the amount of \$259,000, principal sum of said notes.

DIVIDENDS

Regular quarterly dividends of $37\frac{1}{2}$ cents per share have been paid on the 6% Cumulative Convertible Preferred Stock, commencing with the quarter beginning February 1, 1944.

On January 2, 1945 an initial dividend of 25 cents per share was paid on the Common Stock and a like dividend was paid on April 2, 1945.

RESERVE

The reserve for contingencies and postwar adjustments was increased at the close of the fiscal year to \$500,000 by an additional provision from profits of \$150,000.

POSTWAR PROGRAM

Considerable time and thought have been given to postwar operations. Steps have been taken to strengthen our merchandising program and, of course, we are making definite plans for the return of the young men who have temporarily left our organization to serve in the armed forces.

The most noticeable changes (postwar) will undoubtedly be in our physical properties and while we are not yet in a position to indicate all of the probable changes in connection with all stores, we can announce certain plans pertaining to the Oakland store.

As of July 1, 1944 we entered into a twenty-one year lease for the property occupied in Oakland, which lease provides for obtaining in 1947 additional ground floor area with additional street frontage of 100 feet on Broadway so that we will have the entire street frontage between 15th and 16th streets, a total of 230 feet. The lease also provides for extensive improvements (as soon as war conditions permit) of the premises now occupied; such as, escalators; new elevators; the flooring of the dome on the second, third and fourth floors; the elimination of the present display window arcades; and other work which will greatly improve the appearance of the store, make for better customer convenience and more efficient operations. These improvements will add a total of approximately 50,000 square feet to the space now occupied. The cost of this work will be divided between our landlord and ourselves in accordance with the terms of the lease agreement.

GENERAL

We approach the new year with mixed feelings. New and more drastic controls and restrictions on manufactured goods, especially textiles, have been announced by the government agencies and from information now at hand, this will result in less merchandise being available. However, we have full confidence in the ability of our organization to meet this and other conditions as they may occur.

It is with much pride that we commend our organization, not only on account of the splendid operating results of the past years, but also because of the outstanding accomplishments made during this crisis in community and nation-wide services, such as in War Bond sales, War Chest drives, Red Cross activities and many other war services.

For the Board of Directors

JOHN J. REILLY, *President.*

ACCOUNTANTS' REPORT

San Francisco
April 2 1945

To the Board of Directors of
Western Department Stores

We have examined the consolidated balance sheet of Western Department Stores and wholly owned subsidiary as of January 31 1945 and the related statement of profit and loss and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary.

In our opinion, the accompanying consolidated balance sheet and related statement of profit and loss and earned surplus, together with the notes appended thereto, present fairly the position of Western Department Stores and wholly owned subsidiary consolidated at January 31 1945 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & Co.

WESTERN DEPAR
(a California

AND WHOLLY OW

CONSOLIDATED BALANCE

(With comparative figure

(See accompanying notes

ASSETS

	January 31	
	1945	1944
Current Assets:		
Cash in banks and on hand.....	\$1,494,680.38	\$1,604,176.26
Accounts receivable:		
Customers	\$1,065,062.28	\$ 891,881.51
Sundry	63,089.82	78,807.07
	\$1,128,152.10	\$ 970,688.58
Less—Reserves for doubtful accounts.....	147,392.60	108,615.38
	\$ 980,759.50	\$ 862,073.20
Inventories of merchandise:		
On hand, at or below cost as determined by the retail inventory method	\$2,018,913.16	\$1,829,009.56
In transit, at cost.....	370,425.91	260,347.87
	\$2,389,339.07	\$2,089,357.43
Total current assets	\$4,864,778.95	\$4,555,606.89
Miscellaneous Investments, Deposits and Advances.....	\$ 43,772.37	\$ 48,791.67
Estimated Post-War Refund of Excess Profits Tax.....	\$ 58,000.00	\$ 8,000.00
Capital Assets, at cost:		
Land	\$ 73,500.00	\$ 51,888.40
Buildings, furniture and equipment, etc.....	1,106,065.74	1,103,518.76
Leasehold and improvements to leased buildings.....	724,325.33	724,325.33
	\$1,903,891.07	\$1,879,732.49
Less—Reserves for depreciation and amortization.....	1,432,221.09	1,367,734.02
	\$ 471,669.98	\$ 511,998.47
Deferred Charges:		
Unexpired insurance, prepaid taxes and other expenses.....	\$ 140,088.85	\$ 141,825.03
	\$5,578,310.15	\$5,266,222.06

MENT STORES

(Corporation)

NED SUBSIDIARY

SHEET—JANUARY 31 1945

s as at January 31 1944)

to financial statements)

LIABILITIES

January 31

	1945	1944
Current Liabilities:		
Notes payable to banks.....	—	\$ 500,000.00
Accounts payable, trade	\$1,086,690.77	928,533.10
Payrolls, taxes and other accrued liabilities.....	688,982.66	571,062.52
Estimated reserve for Federal taxes on income.....	2,475,000.00	2,153,796.26
Less—United States Treasury Notes, Tax Series C.....	2,300,000.00	1,835,000.00
Dividend payable February 1 1945.....	25,175.40	—
Total current liabilities	\$1,975,848.83	\$2,318,391.88
Employees' Subscriptions to Five Year Convertible Notes (Note A)	\$ 4,720.00	—
Reserve for Contingencies and Post-War Adjustments.....	\$ 500,000.00	\$ 350,000.00
Capital Stock and Surplus (Note B):		
Capital stock:		
At January 31 1945:		
6% cumulative convertible preferred (Note C):		
Authorized—100,000 shares of a par value of \$25 per share		
Issued—67,133 shares	\$1,678,325.00	
Special preferred:		
Authorized—58,042 shares of a par value of \$25 per share		
Issued—None (Note D)		
Common:		
Authorized—200,000 shares of a par value of \$1 per share		
Issued—95,947 shares (Note E).....	95,947.00	
At January 31 1944:		
Preferred, 7% cumulative:		
Authorized and issued—58,042 shares of a par value of \$25		
per share		\$1,451,050.00
Common:		
Authorized—65,000 shares of no par value		
Issued—62,788 shares		35,001.00
Initial deficit		\$1,486,051.00
		326,488.33
	\$1,774,272.00	\$1,159,562.67
Earned surplus since reorganization April 8 1937, per statement		
attached	1,323,469.32	1,438,267.51
	\$3,097,741.32	\$2,597,830.18
Contingent Liabilities—See Note H		
	\$5,578,310.15	\$5,266,222.06

**WESTERN DEPARTMENT STORES
AND WHOLLY OWNED SUBSIDIARY**

**CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS
YEAR ENDING JANUARY 31 1945**

(With comparative figures as at January 31 1944)

(See accompanying notes to financial statements)

	1945	1944
Net sales, including leased departments.....	\$22,765,349.72	\$20,343,490.35
Less—Sales of leased departments.....	3,147,734.10	2,744,777.17
	<u>\$19,617,615.62</u>	<u>\$17,598,713.18</u>
Cost of merchandise sold.....	12,756,295.22	11,496,022.32
Gross profit—own departments	\$ 6,861,320.40	\$ 6,102,690.86
Discounts on purchases	557,146.79	497,868.59
Gross income from leased departments.....	420,116.21	363,979.40
	<u>\$ 7,838,583.40</u>	<u>\$ 6,964,538.85</u>
Selling, general and administrative expenses.....	4,551,307.13	4,164,614.27
	<u>\$ 3,287,276.27</u>	<u>\$ 2,799,924.58</u>
Provision for depreciation and amortization.....	64,525.64	64,933.33
	<u>\$ 3,222,750.63</u>	<u>\$ 2,734,991.25</u>
Other income	83,196.39	85,026.45
	<u>\$ 3,305,947.02</u>	<u>\$ 2,820,017.70</u>
Other charges:		
Interest	\$ 8,248.24	\$ 27,198.44
Miscellaneous	1,013.02	14,263.01
	<u>\$ 9,261.26</u>	<u>\$ 41,461.45</u>
Profit, before provision for Federal taxes on income.....	\$ 3,296,685.76	\$ 2,778,556.25
Estimated provision for Federal taxes on income (Note F).....	2,425,000.00	2,042,000.00
Profit for year	<u>\$ 871,685.76</u>	<u>\$ 736,556.25</u>
Provision for contingencies and post-war adjustments.....	\$ 150,000.00	\$ 150,000.00
Additional Federal taxes on income of prior years, less related reductions in reserves	7,945.45	21,596.44
Loss on sale of stock of Shields Estate Company, \$523,156.47, less reserve of \$500,000.00 provided as of January 31 1943.....		23,156.47
	<u>\$ 157,945.45</u>	<u>\$ 194,752.91</u>
Balance of profit to earned surplus.....	\$ 713,740.31	\$ 541,803.34
Earned surplus at beginning of year.....	1,438,267.51	925,497.27
	<u>\$ 2,152,007.82</u>	<u>\$ 1,467,300.61</u>
Excess of par value of capital stocks issued and cash paid in re- capitalization as of April 3 1944 over par value of capital stocks formerly issued (Note B).....	\$ 344,083.50	
Elimination of "Initial Deficit" (Note B).....	326,488.33	
Excess of redemption price over par value of Special Preferred Stock redeemed (Note D).....	31,684.59	
Excess of cost over par value of two shares of Special Preferred Stock purchased and cancelled.....	22.00	
Cost of fractional shares of common stock purchased and cancelled		\$ 12.10
Dividends paid or declared (Note G).....	126,260.08	29,021.00
	<u>\$ 828,538.50</u>	<u>\$ 29,033.10</u>
Earned surplus at end of year (accumulated since reor- ganization, April 8 1937).....	<u>\$ 1,323,469.32</u>	<u>\$ 1,438,267.51</u>

WESTERN DEPARTMENT STORES AND WHOLLY OWNED SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS—JANUARY 31 1945

NOTE A:

As of September 1 1944, certain officers and executive employees were granted the right to purchase at face value Five Year Convertible Notes in an aggregate amount not in excess of \$300,000.00 face value. The subscription agreements provide that at least 1/60th of the purchase price shall be paid on execution of the agreement and at least 1/5th of the balance shall be paid annually thereafter; the agreements are not transferable. On termination of employment, amounts paid by employees are refundable and all rights under the agreements shall cease. The Five Year Convertible Notes are to be issued when the full subscription price has been received, will bear interest at 3% per annum from date of issuance, and will mature September 1 1949; the notes are convertible at any time on or prior to maturity, at the option of the holder during the continuance of his employment, into common stock in the ratio of five shares of stock for each \$100.00 of face value.

At January 31 1945, subscription agreements had been executed for \$259,000.00 principal amount of notes, of which \$254,280.00 remained to be collected. Amounts paid on the subscriptions bear interest at the rate of 3% per annum.

NOTE B:

The plan of recapitalization adopted by the stockholders on December 21 1943 became fully effective on April 3 1944, and the resulting changes in capital stock are summarized as follows:

	Par value
33,159 shares of special preferred stock were exchanged for—	
33,159 shares of 6% cumulative convertible preferred stock \$	828,975.00
33,159 shares of \$1.00 par value common stock.....	33,159.00
22,651 shares of special preferred stock were exchanged for—	
33,974 shares of 6% cumulative convertible preferred stock	849,350.00
<hr/> 55,810 shares exchanged	
2,232 shares not exchanged	
<hr/> 58,042 shares of special preferred stock formerly outstanding	
<hr/> 62,788 shares of no par common stock were changed to \$1.00 par value stock	62,788.00
	<hr/> \$1,774,272.00
Par or stated value of capital stocks formerly authorized:	
58,042 shares of 7% cumulative preferred stock..	\$1,451,050.00
62,788 shares of no par value common stock....	35,001.00
	<hr/> \$1,486,051.00
Less—Par value of special preferred stock not exchanged	55,800.00
	<hr/> 1,430,251.00
	<hr/> \$ 344,021.00
Cash paid in lieu of fractional shares of 6% cumulative convertible preferred stock	62.50
	<hr/> \$ 344,083.50
	<hr/> <hr/>

In connection with the plan of recapitalization, the initial deficit of \$326,488.33 was eliminated by charge to earned surplus. This initial deficit represented the excess of the par value of the preferred stock and the stated value of the common stock issued in reorganization at April 8 1937 over the net assets acquired from the predecessor corporation.

NOTE C:

The 6% cumulative convertible preferred stock is convertible into common stock, at any time at the option of the holder, in the ratio of share for share. The liquidation and redemption value of the preferred stock is \$26.50 per share plus any accumulated and unpaid dividends.

NOTE D:

The special preferred stock (2,230 shares) was called for redemption on November 1 1944 at \$26.50 per share plus accumulated dividends of \$12.33 $\frac{1}{2}$ per share and funds were deposited with a trustee. At January 31 1945, all but 644 shares had been presented and redeemed.

NOTE E:

In connection with the subscription agreements mentioned in Note A, shares of common stock, not in excess of 15,000 shares, have been reserved for conversion of Five Year Convertible Notes.

At January 31 1945, 80 shares of common stock were represented by fractional share scrip certificates which are non-voting and are not entitled to dividends.

NOTE F:

The estimated provision for Federal taxes on income for 1945 consists of:

Income taxes		\$ 175,000.00
Excess profits tax	\$2,500,000.00	
Less—Debt retirement credit	200,000.00	2,300,000.00
		<u>\$2,475,000.00</u>
Post-war refund credit		50,000.00
		<u><u>\$2,425,000.00</u></u>

NOTE G:

Dividends paid or declared in the year ending January 31 1945 were as follows:

6% cumulative convertible preferred stock:		
\$1.12½ per share in cash.....	\$75,177.90	
Declared, payable February 1 1945, \$.37½ per share	25,175.40	\$100,353.30
		<u>1,941.03</u>
Special preferred stock, \$.75 per share in cash.....		23,965.75
Common stock, \$1.00 par value—\$.25 per share in cash..		<u><u>\$126,260.08</u></u>

NOTE H:

Under the provisions of a lease of the Oakland Store premises for the period from July 1 1944 to June 30 1965 the corporation has agreed to make extensive improvements and alterations to the premises as soon as practical, subject to delays because of priorities, manpower shortages and unavailability of materials or equipment. It is presently impracticable to estimate what the expenditures in connection with the foregoing may approximate but they are expected to reach the minimum amount specified, \$750,000.00. The lessor has agreed to bear the cost of such expenditures in the amount of \$450,000.00, and the corporation is obligated to expend the balance; expenditures in excess of such minimum are in the discretion of the corporation.



